

## Message Text

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13

ACTION EB-11

INFO OCT-01 NEA-14 ISO-00 AID-20 CIAE-00 COME-00 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 L-03 NSC-07 SS-20 STR-08

CEA-02 H-03 DRC-01 /138 W

----- 100467

P R 210635Z SEP 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC PRIORITY 6838

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

LIMITED OFFICIAL USE ISLAMABAD 9067

E.O. 11652: N/A

TAGS: EIND, PK

SUBJECT: FAVORABLE RESPONSE TO HERCULES PROPOSAL FOR PLANT  
EXPANSION

1. SUMMARY. HERCULES OFFICIALS REPORT FAVORABLE RESPONSE  
BY KEY GOP OFFICIALS TO HERCULES PLANS FOR PLANT  
EXPANSION. HERCULES OFFICIALS WILL ATTEMPT TO ARRANGE  
FINANCE PACKAGE WITH IBRD AND HOPE TO BE IN POSITION  
TO NEGOTIATE PLANS FOR PLANT EXPANSION WITHIN 4 TO 6  
WEEKS. MEANWHILE, TECHNICAL DISCUSSIONS WILL BEGIN  
BETWEEN LOCAL HERCULES REPRESENTATIVE AND CHIRMAN  
NATIONAL FERTILIZER CORPORATION(NFC). END SUMMARY.

2. DURING SEPTEMBER 17 MEETING WITH AMBASSADOR AND  
EMBASSY REPRESENTATIVES, THE VISITING HERCULES OFFICIALS,  
ROBER WHITNEY AND ARDEN ENGBRETSSEN REPORTED THAT ONLY  
CURRENT PROBLEMS OUTSTANDING BETWEEN GOP AND HERCULES  
WERE:

A. THAT RECENT PRICE INCREASE IS RELATED TO  
MAINTENANCE BY HERCULES OF FUNDS TO PARTIALLY OFFSET  
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ACCELERATED DEPRECIATION.

B. THAT INCREASE FROM RS. 52 PER TON TO RS. 87 PER TON FOR DISTRIBUTION EXPENSES IS NOT SUFFICIENT TO COVER FULL COSTS. THE NFC BY CONTRAST IS PERMITTED TO CHARGE RS. 141 PER TON FOR DISTRIBUTION.

3. IN RESPONSE TO AMBASSADOR'S QUERY AS TO WHAT WAS NECESSARY FOR HERCULES TO AGREE TO PLANT EXPANSION, WHITNEY REPLIED THE GOP WOULD HAVE TO AGREE TO THE FOLLOWING 4 POINTS:

A. NO EQUITY PARTICIPATION BY HERCULES OTHER THAN PERHAPS A SMALL AMOUNT OF RETAINED DIVIDENDS.

B. A FEE PAYMENT TO HERCULES IF THEY ARE TO SUPERVISE CONSTRUCTION OF THE EXPANSION.

C. A CHANGE IN THE EXISTING MANAGEMENT ARRANGEMENT SO AS TO INSURE THAT HERCULES HAS OPERATIONAL CONTROL OF THE PLANT RATHER THAN THEIR PARTNER, AHMED DAWOOD.

D. A GUARANTEED RETURN ON THEIR EXISTING INVESTMENT (NO SPECIFIC AMOUNT WAS MENTIONED BUT WHITNEY SAID PERHAPS 15 PERCENT DURING CONSTRUCTION AND 20 PERCENT THEREAFTER).

4. WHITNEY STATED HERCULES ESTIMATED COST OF DOUBLING EXISTING PLANT AS \$120 MILLION OF WHICH \$75 MILLION WOULD BE FOREIGN EXCHANGE. THIS SUM REPRESENTS SAVINGS OF ABOUT \$40 MILLION BECAUSE OF ADVANTAGES OF USING PORTIONS OF EXISTING PLANT.

5. IN A MEETING SEPTEMBER 19 WITH EMBASSY REPRESENTATIVES, WHITNEY REPORTED THAT THEY HAD SEEN FINANCE MINISTER, MUBASHIR HASSAN, WHO SAID THAT THE FOUR CONDITIONS MENTIONED PARA 3 WERE ACCEPTABLE TO GOP. IN ADDITION, IN PRESENCE OF HERCULES OFFICIALS, HE DICTATED INSTRUCTIONS TO APPROPRIATE OFFICIALS RESCINDING REQUIREMENT FOR MAINTENANCE OF FUNDS TO OFFSET DEPRECIATION MENTIONED PARA 2. ALSO IN THEIR LIMITED OFFICIAL USE

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PRESENCE, MINISTER HASSAN DICTATED MEMO TO MINISTER FOR PRODUCTION AND COMMERCE, RAFI RAZA, URGING HIM TO DO WHAT HE COULD TO EXPEDITE HERCULES' PLANS TO DOUBLE EXISTING PLANT CAPACITY.

6. SEPTEMBER 20 WHITNEY TOLD EMBOFF THAT IN MEETING PREVIOUS EVENING, CHAIRMAN NFC, BABAR ALI, WAS QUITE RESPONSIVE TO HERCULES PLANS FOR PLANT EXPANSION.

ALI CLAIMED GOP COULD NOT PAY MORE THAN THE PART VALUE OF RS. 10 PER SHARE FOR EQUITY PARTICIPATION (BOOK VALUE IS RS 19 PER SHARE), BUT INDICATED THAT THIS PROBLEM COULD BE OVERCOME BY INCREASING PRICE FOR MANAGEMENT SERVICE AGREEMENT WITH HERCULES.

7. WHITNEY TOLD EMBOFF THAT SEPTEMBER 20 MEETING WITH MINISTER RAFI RAZA WENT EXTREMELY WELL AS HE WAS AS ENTHUSIASTIC ABOUT PLANS FOR HERCULES PLANT EXPANSION AS WAS MINISTER HASSAN. HE EXPRESSED DISAPPOINTMENT THAT HERCULES OFFICIALS WERE NOT PREPARED TO REMAIN IN ISLAMABAD TO NEGOTIATE FINAL CONTRACT AT PRESENT TIME.

8. WHITNEY TOLD EMBOFF THAT GOP RESPONSES TO HERCULES' PROPOSED PLANT EXPANSION WERE MUCH MORE FAVORABLE THAN TEAM HAD ANTICIPATED. THEY HAD INTENDED THIS VISIT AS MERELY EXPLORATORY AND WERE NOT PREPARED AT THIS STAGE TO ACTUALLY ENTER INTO NEGOTIATIONS. HOWEVER, HE WILL BE IN CONTACT SHORTLY WITH IBRD OFFICIALS AND HOPES TO NEGOTIATE A PACKAGE TO FINANCE THE PLANT EXPANSION. LOCAL HERCULES REPRESENTATIVE, JOHN EAGAN, WILL BEGIN DISCUSSIONS WITH NFC CHAIRMAN REGARDING TECHNICAL DETAILS.

9. A MAJOR ELEMENT WHICH HERCULES MUST CONSIDER IS THAT RAZA STATED THAT GOP WISHES TO HAVE MAJORITY EQUITY OWNERSHIP OF NEW PLANT. WHITNEY STATED THIS FACTOR COULD BE RESOLVED AS HERCULES' PRIMARY CONSIDERATION IS TO OBTAIN AN "ADEQUATE" RETURN ON ITS INVESTMENT. THIS COULD BE IN THE FORM OF DIVIDENDS, MANAGEMENT OR TECHNICAL SERVICES FEES OR COMBINATION OF ALL.

19. WHITNEY CONCLUDED THAT HE EXPECTS HERCULES OFFICIALS LIMITED OFFICIAL USE

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WILL BE IN POSITION TO RETURN TO PAKISTAN WITHIN 4 TO 6 WEEKS TO NEGOTIATE FINAL AGREEMENT. AT SUCH TIME, HE MIGHT BRING ALONG A SENIOR HERCULES OFFICIAL TO CALL UPON PRIME MINISTER BHUTTO AND HOPEFULLY SIGN AGREEMENT.

11. NEXT IMMEDIATE STEP FOR HERCULES IS TO INFORM THEIR PARTNER, AHMED DAWOOD, OF A PORTION OF THE ABOVE DEVELOPMENTS. AS THEIR RELATIONS WITH THEIR PARTNER ARE STRAINED, HE REQUESTED THAT INFORMATION CONCERNING PROPOSED PLANT EXPANSION BE CLOSELY HELD.  
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## Message Attributes

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